



A REPORT
TO THE
MONTANA
LEGISLATURE

COMPLIANCE AUDIT

Montana State University

*For the Two Fiscal Years Ended
June 30, 2019*

DECEMBER 2019

LEGISLATIVE AUDIT
DIVISION

19-13

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COMPLIANCE AUDITS

A compliance audit is a component of the biennial financial-compliance audit. In these audits, the compliance and financial audits are combined for a two-year period to constitute the financial-compliance audit. Financial-compliance audits are classified as financial audits according to Government Auditing Standards. The primary objectives of the compliance audits are to determine compliance with regulations relating to contract and grant expenditures, other governmental financial assistance, and to test compliance with requirements of selected state laws, regulations, and rules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

December 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the compliance audit of the Montana State University for the two fiscal years ended June 30, 2019. This compliance audit focused on compliance with federal requirements of the university's Research and Development (R&D) federally-assisted program. The R&D program is comprised of a wide variety of individual research-based grants administered by the university. We also tested compliance with selected laws and state accounting policies.

In accordance with Federal audit guidance, we did not address the Student Financial Aid program. Federal audit guidance requires some programs not be audited each year, if they meet certain criteria. Student Financial Aid met this criteria, and as such we performed no work over it for the two fiscal years ended June 30, 2019. As required by federal regulation, it will be audited during the next compliance audit of the university.

This report contains three recommendations related to improvements needed in controls regarding travel expenses and cash collections. The report also contains audit findings regarding noncompliance with state policy related to valuation of inventory at the Museum of the Rockies.

We thank the president and university staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

		<u>Term Expires</u>
Board of Regents of Higher Education	Casey Lozar, Chair	February 1, 2025
	Paul Tuss, Vice Chair	February 1, 2020
	Joyce Dombrowski	February 1, 2026
	Robert A. Nystuen	February 1, 2022
	Brianne Rogers	February 1, 2024
	Martha Sheehy	February 1, 2021
	John Miller, Student Regent	June 30, 2020
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Elsie Arntzen, Superintendent of Public Instruction*	
*Ex officio members		

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Brock Tessman	Deputy Commissioner for Academic & Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget and Planning, Chief of Staff
	Vivian Hammill	Montana University System Chief Legal Counsel, Deputy Commissioner
	Diedra Murray	MUS Internal Auditor
Montana State University-- All Campuses	Waded Cruzado	President
	Kellie Peterson	Legal Counsel
	Daniel Adams	Director of Audit Services

Montana State University– Bozeman	Robert Mokwa	Executive Vice President for Academic Affairs and Provost
	Terry Leist	Vice President for Administration and Finance
	Jason Carter	Vice President of Research and Economic Development
	Chris Kearns	Vice President of Student Success
	Aaron Mitchell	Assistant Vice President for Financial Services
	Leslie Schmidt	Associate Vice President for Research
	James Broscheit	Director of Financial Aid
	Megan Lasso	Director of University Budgets
Montana State University– Billings	Dan Edelman	Chancellor
	Melinda Arnold	Provost and Academic Vice Chancellor
	Susan Simmers	Vice Chancellor for Administration and Finance
	Kimberly Hayworth	Vice Chancellor of Student Access and Success
	Heather Hanna	Director of Financial Services
	Barb Shafer	Director of Business Services
	Thomas Valles	Director of Financial Aid and Scholarships
Montana State University– Northern	Greg Kegel	Chancellor
	Vacant	Vice Chancellor for Finance and Administration
	R. Neil Moisey	Vice Chancellor for Academic Affairs
	Alisha Schroeder	Registrar
	Steven Wise	Dean of Students
	Chris Wendland	Controller
	Maura Gath	Executive Director of Enrollment Management
	Cindy Small	Director of Financial Aid

**Great Falls College—
Montana State University**

Susan Wolff	CEO/Dean
Carmen Roberts	Director of Operations
Heidi Pasek	Associate Dean and Chief Academic Officer
Mary Kay Bonilla	Chief Student Affairs and Human Resources Officer
Oceane Weldele	Accounting Manager

**Montana Agricultural
Experiment Station**

Sreekala Bajwa	Vice President for Agriculture
Jody Barney	Budget and Fiscal Director

**Montana State University
Extension**

Cody Stone	Director
Sandra Rahn Gibson	Budget and Fiscal Director

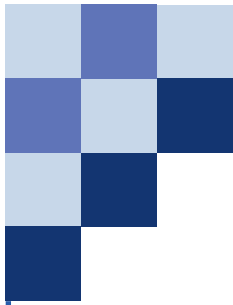
**Montana State University
Fire Services Training
School**

John Culbertson	Director
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For additional information concerning Montana State University,
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COMPLIANCE AUDIT

Montana State University

For the Two Fiscal Years Ended June 30, 2019

DECEMBER 2019

19-13

REPORT SUMMARY

MSU–Bozeman has experienced student growth of about 1 percent per year since fiscal year 2017. The other campuses have continued to see decreases in student enrollment. The continued growth in student enrollment the past few years at MSU–Bozeman has resulted in the continuation of multiple construction projects. The other campuses are re-imagining their academic programs and beginning to offer new programs or strengthen their existing programs. As a result, MSU–Northern built a new Diesel Technology Center. This report contains three recommendations. Two of the findings are for issues identified at MSU–Bozeman and the related programs on that campus. One is for issues identified at MSU–Northern.

Context

Montana State University (university) consists of four campuses located in Bozeman (MSU–Bozeman), Billings (MSU–Billings), Havre (MSU–Northern), and Great Falls (Great Falls College–MSU). We performed procedures at each of these campuses as part of our audit.

Through the audit, we examined the university's compliance with federal regulations governing the Research and Development (R&D) programs. The university recorded approximately \$166.4 million in R&D expenditures in fiscal years 2018 and 2019. Of that total, 99 percent is at MSU–Bozeman. As a result, our audit efforts focused on compliance with R&D requirements at MSU–Bozeman.

In addition, we reviewed certain aspects of the operations of the Museum of the Rockies; the Fire Services Training School; the Western Transportation Institute, a research center focused on rural transportation issues; and the Montana State University Extension. We also tested selected state laws at each of the campuses as part of the audit.

Results

This report contains three recommendations related to improvements needed in controls regarding travel expenses and cash collections. The report also contains audit findings regarding noncompliance with state policy related to valuation of inventory at the Museum of the Rockies.

The prior audit report contained three recommendations. One of these recommendations, related to inventorying and valuing the Museum of the Rockies collection for insurance purposes, is partially implemented and this report further addresses this recommendation. The other two recommendations were implemented and relate to updating the operating agreement with the Museum of the Rockies and following Board of Regents policy at MSU–Northern as it relates to donations.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Call toll-free 1-800-222-4446, or e-mail **LADHotline@mt.gov**.

Chapter I – Introduction

Audit Objectives

We performed a compliance audit of the Montana State University (university) for the two fiscal years ended June 30, 2019. The objectives of the audit were to:

1. Determine whether the university complied with federal regulations applicable to the Research and Development (R&D) programs.
2. Determine whether the university complied with selected state laws and regulations applicable to university operations.
3. Provide university management with recommendations for improvements in its internal and management controls.
4. Determine the implementation status of the prior audit recommendations.

During the audit, we examined the university's compliance with federal regulations governing R&D programs. This included testing internal controls over the R&D programs. The R&D program is comprised of a wide variety of individual research-based grants from many different federal agencies administered by the university. The university recorded approximately \$166.4 million in R&D expenditures in fiscal years 2018 and 2019. Of that total, 99 percent is at MSU–Bozeman. As a result, our audit efforts focused on compliance with R&D requirements at MSU–Bozeman.

In accordance with Federal audit guidance, we did not address the Student Financial Aid program. Federal audit guidance requires some programs not be audited each year, if they meet certain criteria. Student Financial Aid met this criteria, and as such we performed no work over it for the two fiscal years ended June 30, 2019. We anticipate that it will be audited during the next compliance audit of the university.

Additional work performed included, but was not limited to, reviewing certain aspects of the operations of the Museum of the Rockies, the Fire Services Training School, the Western Transportation Institute, and the Montana State University Extension. We also tested selected state laws at each of the campuses as part of the audit. As part of this work we visited each of the four campuses.

Background

Montana State University consists of four campuses:

- ♦ Montana State University–Bozeman (MSU–Bozeman)
- ♦ Montana State University–Billings (MSU–Billings)
- ♦ Montana State University–Northern (MSU–Northern)
- ♦ Great Falls College–Montana State University (Great Falls College–MSU)

All campuses are accredited by the Northwest Commission on Colleges and Universities. The four campuses of the university provide undergraduate and graduate academic and two-year vocational-technical programs to students.

MSU–Bozeman offers four-year undergraduate programs along with Master's and Doctoral graduate programs. It includes the colleges of Agriculture, Arts, and Architecture, Business, Education, Honors, Health and Human Development, Engineering, Letters and Science, Nursing, Graduate School, and the Gallatin College. Also included as part of the Bozeman campus is the MSU Extension, the Montana Agricultural Experiment Station, and the Fire Services Training School which provide outreach and continuing education to people in Montana communities.

MSU–Billings consists of five colleges: the College of Arts and Sciences; the College of Business; the College of Education; the City College; and the College of Allied Health Professionals. MSU–Billings offers one-year and two-year certificate programs, Associate's, Bachelor's, and Master's degrees, as well as pre-professional academic offerings in several fields.

MSU–Northern is a regional, multipurpose educational center serving students who seek both a technical and liberal arts education. MSU–Northern offers courses at three locations, including Havre, Lewistown, and Great Falls. MSU–Northern offers Associate's, Bachelor's, and Master's degrees. A Master's degree program is offered in education, with options in counseling and learning development, and general science.

Great Falls College–MSU serves as a comprehensive two-year college within the Montana University System. Great Falls College–MSU offers Associate of Applied Science degrees and certificates preparing students for high-demand careers in Health Sciences, Business, and Technology. In addition, Great Falls College–MSU offers an Associate of Art degree and an Associate of Science degree for students interested in completing the first two years of a Bachelor's degree in Great Falls.

Enrollment and Staffing

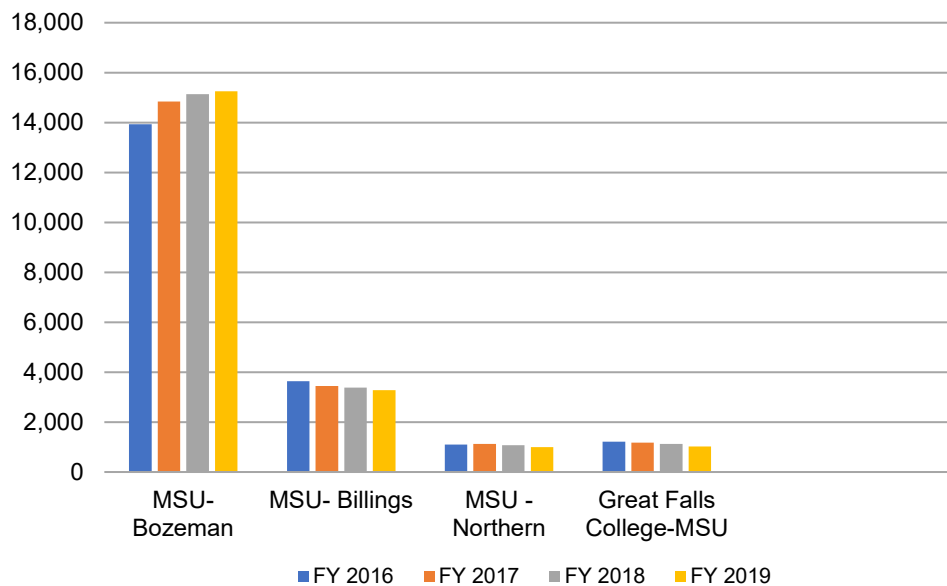
Table 1 shows the university full-time equivalent (FTE) enrollment, by campus, for fiscal year 2019. Figure 1 shows the university student FTE enrollment, by campus, for the past four years.

Table 1
Montana State University Student FTE
For Fiscal Year 2019

MSU–Bozeman	15,253
MSU–Billings	3,275
MSU–Northern	1,002
Great Falls College–MSU	1,029
Total	20,559

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Figure 1
Montana State University Student FTE
Fiscal Years 2016 through 2019



Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Table 2 represents the university student FTE enrollment for fiscal year 2019 by academic level.

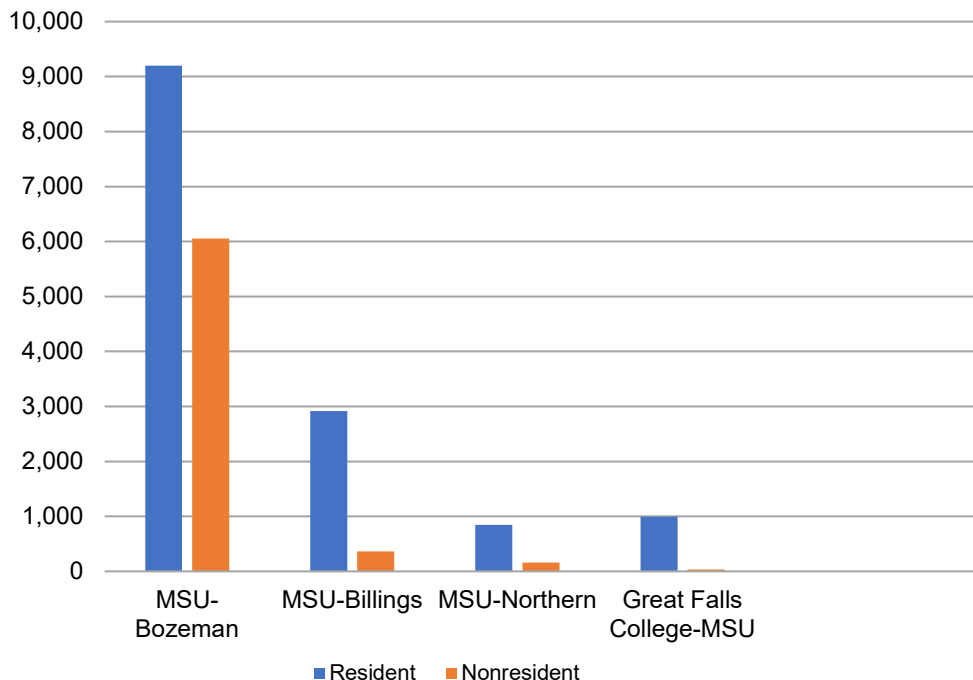
Table 2
Montana State University Student FTE by Academic Level
 For Fiscal Year 2019

Campus	Undergraduate	Graduate	Two-Year	Total
MSU–Bozeman	13,396	1,279	565	15,240
MSU–Billings	2,400	245	630	3,275
MSU–Northern	964	38		1,002
Great Falls College-MSU			1,029	1,029
Total	6,760	1,562	2,224	20,546

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Figure 2 shows the university student FTE enrollment for fiscal year 2019 by residential status at each campus.

Figure 2
MSU Student FTE by Residential Status



Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Prior Audit Recommendations

The prior compliance audit of the university for the two fiscal years ended June 30, 2017, contained three recommendations. Two recommendations were implemented. These relate to updating the operating agreement between the university and the Museum of the Rockies and complying with Board of Regents policy governing the deposit of donations at MSU–Northern.

The prior recommendation related to completing an inventory and valuing the Museum of the Rockies collection to support insurance valuations is partially implemented and is discussed in further detail in Recommendation #3, starting on page 10 of this report.

Chapter II – Findings and Recommendations

MSU–Northern Travel Expenses

Inappropriately paid travel expenses indicate MSU–Northern’s internal controls are not adequate.

Employees on university business receive travel assistance such as per diem and reimbursement for miles driven. The university also pays for various travel expenses such as hotels and airfare. While reviewing travel expenses at MSU–Northern we determined MSU–Northern’s internal controls do not ensure compliance with state travel policy requirements.

Board of Regents policy directs universities to follow state policy for travel expenses. State policy contains limits on how much can be paid for a hotel room, when per diem can be paid, and per diem amounts. State policy also contains requirements for using a personal car and what documentation is required in these situations. The rates to be paid to state employees for mileage reimbursement when using a personal car are included in state policy.

Staff in the central business office at MSU–Northern review all travel expenditures. However, the review performed in the central business office is limited as they rely primarily on the department level review. We reviewed 45 travel expenses at MSU–Northern from both fiscal year 2018 and 2019. We identified several instances of noncompliance with state travel policies. Neither level of review by MSU–Northern staff identified the unallowable travel expenses detailed below.

- ♦ MSU–Northern pays the “high rate” for all personal car usage without requiring any additional documentation such as a documented exemption. State policy indicates that the “high rate” mileage can be paid when a private vehicle is used because a government vehicle is not available, it is in the best interest of the state not to use a government vehicle, and there is either notice of vehicle unavailability from the motor pool or a specific exemption is attached to the travel claim.
- ♦ MSU–Northern incorrectly paid an employee for 1,418 miles at the high rate in November 2017. The 418 miles in excess of 1,000 should have been paid at the lower rate. State policy contains two rates that can be paid for personal car usage. In a given month, any miles traveled beyond 1,000 cannot be charged at the “High Rate.”
- ♦ We identified two instances in which MSU–Northern paid rates in excess of the established limits, with no supporting justification on file. These included paying for two hotel nights in Bozeman and five hotel nights in New Orleans at higher rates than those allowed by state policy. Neither of these instances

contained documentation showing the need to pay the higher rates. State policy indicates lodging expenses should be kept as low as possible, while also being practical, and requires the university to attempt to receive the lowest available rate at commercial lodging facilities. Policy establishes a standard in-state nightly lodging rate, and refers to the federal General Services Administration (GSA) website for out-of state and high-cost areas. Policy indicates that lodging at rates higher than these established rates can be approved in certain circumstances, and requires justification supporting the need for the higher rate to be on file.

Staff at MSU–Northern indicate that they follow state policy when paying travel expenses. However, when we identified the instances described above of unallowed travel expenses staff indicated that they were unaware of the specific requirement in state policy, or that the review performed did not identify that they were paying an unallowed amount.

State accounting policy requires the development of internal controls. This includes controls over financial processes, such as travel expenses. Additionally, a purpose of internal controls is to help ensure compliance with applicable laws and policies. MSU–Northern should enhance internal controls to identify travel requirements in state and university policy and incorporate the requirements in their travel expense review process. This could include, but is not limited to, the central office reviewing all travel expenses for compliance with specific items in travel policy and a periodic review of state travel policy by the central business office to ensure compliance.

RECOMMENDATION #1

We recommend that MSU–Northern enhance internal controls over travel expenses to ensure compliance with state and university policy.

Lack of Segregation of Duties in Cash Collections

One institute on the MSU–Bozeman campus does not have segregation of duties in cash collections and cash deposits.

The Western Transportation Institute (WTI) is one of the MSU-Bozeman institutes. It is focused on advancing rural transportation through research and education. The WTI has three functions within it including the Center for Health & Safety Culture, Local Technical Assistance Program, and the WTI itself. All three of the functions

collect cash and checks. State accounting policy requires agencies develop internal controls over financial processes, including implementing segregation of duties in cash collections.

WTI has three employees involved in collecting and depositing cash. Each of these employees handles the collection and depositing of cash for one of the three functions within WTI. The employees are involved in all parts of the process (collecting funds, creating deposits, taking deposits to business services, and reconciling deposits) for a particular function.

Each function at WTI collects a variable amount of cash ranging from \$500 to \$10,000 monthly. This includes collections for invoiced amounts, class and registration fees, and travel reimbursements. Additionally, WTI will occasionally receive unexpected cash via mail, usually in the form of a returned survey incentive. If segregation of duties is not present there is an increased risk of theft and errors in the cash collection process.

An example of appropriate segregation of duties involves three employees. The first employee opens the mail, prepares the receipts, and deposits the money. The second employee prepares the deposit ticket, prepares a collection report, and prepares the daily record of collections. The third employee reconciles the cash account.

Cash collections at WTI were set up by function within WTI. This structure does not allow for segregation of duties. Staff at WTI indicate that they see the importance of segregation of duties and plan to update their process to have segregation of duties in cash collections.

RECOMMENDATION #2

We recommend that Montana State University and the Western Transportation Institute create segregation of duties for cash collections and deposits.

Insured Values of University-Owned Collection Items

Museum of the Rockies policy should be updated to require its current practice of inventorying and valuing collection items for insurance purposes.

The Museum of the Rockies (MOR) is an academic department of the university and is located on the MSU–Bozeman campus. The MOR is intended to promote appreciation, understanding, and interest in natural history, history, art, and culture of the Northern Rocky Mountain region, and to advance the education purposes and cultural interests of the university.

During the previous two audits we issued recommendations related to insurance valuations reported for museum and fine arts collections of the MOR. Specifically, we recommended the university establish documented, reasonable estimates of collection market value, in accordance with Risk Management Tort Defense insurance program requirements. The prior audit recommendations are partially implemented, and the steps taken by MOR will result in compliance once they are fully complete. During the current audit we identified that the policies in place at MOR do not match their current practice and should be updated to ensure the continuation of the valuation process.

Documented, reasonable valuations are important as without a reasonable basis for determining the value at which to insure museum collections, the university may be unable to support a claim. Additionally, the university may be over or under insuring the collection, which could result in the university either incurring more insurance costs than necessary or not being financially able to reestablish the collections, and continue to accomplish its cultural and educational purposes, in the event of a loss.

MOR has recognized the importance of valuing their collection to support their insurance valuations. Since the last audit, MOR continued with their plan to inventory and value their collections. Their plan, along with the current status, is summarized below:

- ◆ A complete inventory of collections was the museum's top priority. This inventory has been completed.
- ◆ Based on inventory, MOR plans to assign internal valuations. Since the prior audit MOR has made progress assigning valuations to their inventory, but still has a significant number of collection items to assign valuations to.
- ◆ As new items are received they are being assigned a valuation. This has continued, and MOR plans to continue this practice.

MOR personnel indicate that inventorying and valuing the collections owned by the university is something that cannot be completed in a two or four-year period. They have continued to make progress, but estimate it will take a long time to finish valuing all items. This is primarily due to the large number of collection items that are held by MOR.

MOR has internal policies and procedures used by staff and volunteers outlining expected duties and procedures to be followed. However, these policies and procedures do not address valuing collection items to support a reasonable market value for insurance purposes. If policies do not match the practice of valuing collection items for insurance purposes there is a risk that the practice will not continue. Since it will take a long time to finish valuing the collection items held by MOR, it is important for these valuations to continue. Additionally, if the current practice of valuing the collection does not continue then MOR will continue to have unsupported insurance valuations. Updating policy will ensure the valuations continue.

RECOMMENDATION #3

We recommend Montana State University and Museum of the Rockies' staff update Museum of the Rockies' policies to reflect the current practice of valuing items for insurance purposes to ensure the continuation of the museum's inventory and valuation processes.

MONTANA STATE
UNIVERSITY

UNIVERSITY RESPONSE



December 20, 2019

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

RECEIVED
DEC 20 2019
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

Enclosed you will find Montana State University's responses to the recommendations from the Legislative Audit Division Compliance Audit report for the two fiscal years ended June 30, 2019. MSU appreciates the Legislative Audit Division's work and its identification of opportunities for improving the university's operations.

We thank you and your staff for your efforts.

Sincerely,

A handwritten signature in black ink, appearing to read 'Waded Cruzado', written in a cursive style.

Waded Cruzado
President

Enclosure

Office of the President

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Mountains & Minds

MONTANA STATE UNIVERSITY
Response to Legislative Audit Division Compliance Audit
For the Two Fiscal Years Ended June 30, 2019

RECOMMENDATION #1

We recommend that MSU-Northern enhance internal controls over travel expenses to ensure compliance with state and university policy.

MSU-Northern concurs with the recommendation.

MSU-Northern will enhance internal controls over travel expenses to ensure compliance with state and university policy. MSUN has implemented reimbursement of personal car usage at the standard rate unless a signed Personal Vehicle Use Authorization Form is provided to Business Services. If the “high rate” has been authorized for an employee, Business Services will monitor mileage to ensure that any miles traveled beyond 1,000 per month cannot be charged at the “high rate.”

For lodging expenses, MSUN has implemented the use of the four-campus travel justification form, which includes a section for travelling employees to provide justification supporting lodging rates in excess of established rates.

RECOMMENDATION #2

We recommend that Montana State University and the Western Transportation Institute create segregation of duties for cash collections and deposits.

Montana State University and the Western Transportation Institute concur with the recommendation.

The Western Transportation Institute implemented a policy to segregate duties for cash collections and deposits based on guidance from Montana Operations Manual 325 – Cash Accounts and Deposits in August 2019.

RECOMMENDATION #3

We recommend Montana State University and Museum of the Rockies’ staff update Museum of the Rockies’ policies to reflect the current practice of valuing items for insurance purposes to ensure the continuation of the museum’s inventory and valuation processes.

Montana State University and the Museum of the Rockies concur with the recommendation.

The Museum of the Rockies agrees with the recommendation to update both its policy and procedure manuals. A complete rewrite, overseen by the museum’s registration staff, is scheduled to be completed by the end of the 2020 calendar year. The new policy and procedure manuals will specifically reflect current MOR practice of valuing objects for insurance purposes and guide further efforts of insurance valuation.